

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

Illinois Commerce Commission)	
On Its Own Motion)	
)	ICC Docket No. 13-0553
vs.)	
)	
Commonwealth Edison Company)	
)	
Investigation of Tariffs Approved in)	
ICC Docket 13-0386)	

**DIRECT TESTIMONY OF MICHAEL L. BROSCHE
ON BEHALF OF THE
PEOPLE OF THE STATE OF ILLINOIS**

AG Exhibit 1.0

October 11, 2013

DIRECT TESTIMONY OF MICHAEL L. BROSCHE

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1 **I. INTRODUCTION / SUMMARY**

2

3 **Q. Please state your name and business address.**

4 A. My name is Michael L. Brosch. My business address is PO Box 481934, Kansas
5 City, Missouri 64148-1934.

6

7 **Q. By whom are you employed and in what capacity?**

8 A. I am a principal in the firm Utilitech, Inc., a consulting firm engaged primarily in
9 utility rate and regulation work. The firm's business and my responsibilities are
10 related to the conduct of regulatory projects for utility regulation clients. These
11 services include rate case reviews, cost of service analyses, jurisdictional and class
12 cost allocations, financial studies, rate design analyses, utility reorganization
13 analyses, the design and administration of alternative regulation mechanisms and
14 focused investigations related to utility operations and ratemaking issues.

15 **Q. On whose behalf are you appearing in this proceeding?**

16 A. I am appearing on behalf of the People of the State of Illinois represented by the
17 Attorney General, ("Attorney General" or "AG").

18 **Q. Will you summarize your educational background and professional experience**
19 **in the field of utility regulation?**

20 A. Yes. AG Exhibit No. 1.1 is a summary of my education and professional
21 qualifications. I have testified before utility regulatory agencies in Arizona,
22 Arkansas, California, Florida, Hawaii, Illinois, Indiana, Iowa, Kansas, Michigan,
23 Missouri, New Mexico, Ohio, Oklahoma, Texas, Utah, Washington, and Wisconsin
24 in regulatory proceedings involving electric, gas, telephone, water, sewer, transit,
25 and steam utilities. A listing of my previous testimonies in utility regulatory

proceedings is set forth in AG Exhibit No. 1.2. As noted in this listing, I have testified in several major Illinois proceedings before the Illinois Commerce Commission (“the Commission” or “the ICC”), including multiple cases involving Peoples Gas Light & Coke Company, North Shore Gas Company, Commonwealth Edison Company (“ComEd”) and the Ameren Illinois Utilities, including the initial and second round of formula rate case proceedings for ComEd and Ameren Illinois, Docket Nos. 11-0721, 12-0321, 12-0001 and 12-0293.

Q. What is the purpose of your testimony in this docket?

A. My testimony addresses certain issues related to the May 30, 2013 ComEd ICC tariff sheets and formula rate spreadsheets, filed with the ICC pursuant to Public Act 98-0015 (“PA 98-0015”) and new Section 16-108.5(k)(1) of the Public Utilities Act, and approved by the Commission on June 5, 2013, which triggered changes in ComEd's delivery services formula rate tariff and the rates incorporated into ComEd's formula rate update case, Docket No. 13-0318. The changes I recommend to ComEd's presentation of the formula rate tariff should be adopted by the Commission, as discussed below, and incorporated into rates that take effect January 1, 2014.

Q. Please summarize the recommendations that are set forth in your testimony.

A. My testimony addresses two issues impacting the determination of ComEd's rates. First, I explain that the interest rate being used in ComEd's filing has been inappropriately factored up to account for incremental income tax expenses, thereby expanding the interest rate beyond what is required in the revisions to the Energy Infrastructure Modernization Act (“EIMA”) within PA 98-0015. Then, I explain why the interest rate specified in EIMA must necessarily be applied to ComEd

reconciliation balance net of related accumulated deferred income taxes (“ADIT”) associated with such balances. The combined effect of these two mechanical changes has a significant impact upon the charges to ratepayers required for ComEd to properly recover its formula rate reconciliation revenue amount.

Q. What information have you relied upon in formulating your recommendations?

A. I relied upon ComEd’s initial and revised pre-filed testimony and exhibits in Docket 13-0318, as well as certain of the Company’s responses to data requests submitted by the Commission Staff and the AG in that docket.¹ I have also referenced a copy of the PA 98-0015 modifications to 220 ILCS 5/16-108.5 of the Public Utilities Act, which was provided to me by AG counsel. I also rely upon my prior experience with the regulation of public utilities over the past 35 years, including significant experience in Illinois and with alternative forms of regulation for telephone and energy utilities.

Q. Have you prepared any Exhibits to summarize the formula rate calculation changes being proposed in your testimony?

A. Yes. I prepared two Exhibits to illustrate my proposed revisions to the ComEd formula rate schedules. AG Exhibit 1.3 sets forth the People’s proposed revisions to Schedule FR D-1 that are needed to eliminate ComEd’s inappropriate factoring up of the reconciliation interest rate applicable to the reconciliation balance on Schedule FR A-4. AG Exhibit 1.4 is a copy of the People’s proposed revisions to

¹ The OAG asked the Company in a data request in this docket whether their answers to relevant responses submitted in Docket No. 13-0318 are still the same. As of 4:15 pm on October 11, 2013, the testimony filing date, the People had not yet received ComEd’s response. I therefore reserve the right to modify my testimony, if necessary and appropriate, in my rebuttal testimony.

ComEd Schedule FRD-1 in order to properly offset reconciliation-related Accumulated Deferred Income Taxes (“ADIT”) prior to applying interest to the monthly reconciliation balance.

II. RECONCILIATION INTEREST RATE.

Q. Can you explain the formula ratemaking reconciliation balance and how it is calculated?

A. Pursuant to 220 ILCS 5/16-108.5(d)(1), the Commission is required to compare the calculation of the prior calendar year revenue requirement, using actual recorded input data as reported on the Company’s FERC Form 1, to the corresponding previously approved revenue requirement for that same period. The Company is then required to either refund or surcharge this difference in revenue requirement to ratepayers, plus interest.

Q. What interest rate is to be applied to the reconciliation balance, according to the laws governing the performance-based formula rate process?

A. I am advised by AG counsel that PA 98-0015 now requires that, “Any over-collection or under-collection indicated by such reconciliation shall be reflected as a credit against, or recovered as an additional charge to, respectively, with interest calculated at a rate equal to the utility's weighted average cost of capital approved by the Commission for the prior rate year, the charges for the applicable rate year.”² This represents a significant change from the short term debt-only interest rate that

² PA 98-0015; 220 ILCS 5/16-108.5(d)(1).

was approved for application to reconciliation balances in the Commission's rate orders in Docket Nos. 11-0721 and 12-0321.³

Q. What is ComEd's "weighted average cost of capital" ("WACC") for purposes of determining the interest rate applicable to reconciliation balances?

A. The Company's asserted WACC in its May 30, 2013 filing in Docket 13-0386 and in its filing in ICC Docket No. 13-0318 is calculated at lines 17-21 of ComEd Ex. 3.18, Schedule FR D-1. This calculation combines the weighted costs of equity, long-term debt, short-term debt and credit facility costs, resulting in an overall WACC of 7.54% in Docket No. 13-0386, and 6.91 percent⁴ in Docket No. 13-0318.

Q. Has ComEd correctly applied its weighted average cost of capital to the reconciliation balance within its May 30, 2013 and Docket No. 13-0318 filings?

A. No. In Docket No. 13-0386, the Company calculated and applied a much higher interest rate of 10.52 percent to its reconciliation balance, rather than the 7.54 percent WACC recorded at line 21 of Schedule FR D-1. This can be observed at Schedule FR D-1, line 25, in that filing. Consequently, in Docket No. 13-0318, the Company likewise has calculated and applied a much higher annual interest rate of 9.67 percent to its reconciliation balance. This higher percentage rate can be observed in ICC Docket No. 13-0318, ComEd Ex. 3.18, Schedule FR D-1, line 25, with the caption, "Total Revenue Effect of Return." This 9.67 percent value is then carried forward to the reconciliation Schedule FR A-4 at line 2, where it is used to compute "Interest" in column (F) of that Schedule.

³ See Final Order dated in Docket No. 12-0001 at page 188 and Final Order dated December 5, 2012 in Docket No. 12-0293 at page 114.

⁴ Notably, at line 21 of Schedule FR D-1 in both dockets, ComEd captions its Weighted Average Cost of Capital as its "Pre-Tax Wtd Avg Cost of Capital (%)."

113 **Q. What adjustments are added to ComEd’s weighted average cost of capital to**
114 **increase the 6.91 percent value to 9.67 percent in the Docket No. 13-0318 filing**
115 **as a result of the modification to the formula rate tariff made in Docket No. 13-**
116 **0386?**

117 A. Schedule FR D-1 in ICC Docket No. 13-0318 reveals calculations that first reduce
118 the 6.91 percent value by 1.22 percent on line 22 for what is called the “Tax Effect
119 of Debt.” Then, the resulting amount on line 23, that ComEd labels its, “After Tax
120 Cost of Capital” of 5.69 percent, is factored up by a “Gross Revenue Conversion
121 Factor” on line 24. This series of calculations ultimately yields the Company’s
122 proposed, “Total Revenue Effect of Return” of 9.67 percent.

123 **Q. What is the Company’s rationale for increasing the weighted average cost of**
124 **capital for assumed income tax expenses?**

125 A. According to ComEd’s response to data request AG 4.05(b) in Docket No. 13-0318,
126 which is attached as AG Ex. 1.5, “[a]s discussed in ComEd Ex. 3.0 REV at 68:146-
127 69:1463, the revenue ComEd receives is subject to income tax. If the gross revenue
128 conversion factor is not applied to the after tax cost of capital, ComEd would not
129 actually recover its allowed cost of capital on the reconciliation balance as provided
130 for in PA 98-0015. This is the same principle that applies to the income tax gross-
131 up that is applied to ComEd’s after tax return on rate base. *See* ICC Docket No.
132 13-0318, ComEd Ex. 3.18, Sch. FR A-1, lines 17 and 18, also attached as AG
133 Exhibit 1.6.

134 **Q. Is it necessary or appropriate to apply either of the income tax adjustments**
135 **ComEd has added to its weighted average cost of capital on Schedule FR D-1 in**
136 **both Docket Nos. 13-0386 and 13-0318 to determine an interest rate that is**

equal to the utility's weighted average cost of capital to be applied to reconciliation balances?

A. No. An interest rate is just that, a percentage value to account for the time value of money. If income tax effects or a "Total Revenue Effect of Return" were intended to be part of the reconciliation calculation, the revised statute could have stated this intent rather than simply referring to "interest calculated at a rate equal to the utility's weighted average cost of capital approved by the Commission." Adding an income tax expense factor-up in the manner proposed by ComEd overstates the required rate of interest and would charge ratepayers for assumed incremental income taxes on equity return amounts that is not prescribed within the revised statute nor reflective of expenses that ComEd would incur.

Q. Will ComEd actually pay income taxes when it collects "interest" as part of the recovery of the reconciliation balances that are calculated on Schedule FR A-4 in Docket Nos. 13-0386 and 13-0318?

A. No. If the Company incurs interest expense equal to its weighted average cost of capital when reconciliation balances are being financed, there would be no income tax expense incurred by ComEd because "interest" is income tax deductible. The Company is free to actually finance any changes in the reconciliation balance using any form of capital it desires, including a mix of debt or equity. PA 98-0015 does not require consideration of the Company's incurred actual incremental financing costs or incremental income taxes arising from specific financing decisions that may be made by the utility. Instead, PA 98-0015 specifies a rate of interest equal to the utility's weighted average cost of capital without regard to actual financing

decisions made by the utility. Schedule FR A-4 from ICC Docket No. 13-0318 is attached as AG Ex. 1.7.

Q. In contrast to the ComEd proposal, has Ameren Illinois Company proposed the same income tax factor-up of its weighted average rate of return be applied to that utility's reconciliation balance in its formula rate filing in Docket No. 13-0301?

A. No. Ameren proposes, in its formula rate calculations, to apply a "Monthly Interest Rate" of 0.6803% to its reconciliation balance, "Variance With Collar" amount, as calculated on Ameren Ex. 1.3R at Sch. FR A-4, lines 3 and 4. This percentage represents 1/12 of the Company's calculated Weighted Average Cost of Capital that is calculated at Sch. FR D-1 and that appears at line 29 in column D. Thus, AIC is proposing that the revenue requirement difference arising from the EIMA reconciliation process, whether positive or negative, be allowed to earn the Company's calculated overall cost of capital, as required in PA 98-0015, with no income tax factor-up of the type proposed by ComEd. I have included in AG Exhibit 1.8 copies of the referenced AIC Schedules from Ameren Ex. 1.3R that are on file in ICC Docket No. 13-0301.

Q. What interest rate should be applied to ComEd's reconciliation balances?

A. The Company's weighted average cost of capital, as approved by the Commission, is prescribed for application to the reconciliation balance without revision for income taxes. Unless adjustments are made to the Company's calculations in Schedule FR D-1 in Dockets 13-0386 and 13-0318, ratepayers will pay excessive interest for alleged income tax expense effects that the Company is not incurring.

The appropriate interest rate to be applied pursuant to PA 98-0015 in Docket No. 13-0386 is the 7.54 percent WACC set forth at line 21 of FR D-1.⁵ The appropriate interest rate to be applied pursuant to PA 98-0015 in Docket No. 13-0318 is the 6.91 percent WACC set forth at line 21 of ComEd Exhibit 3.18, Schedule FR D-1. AG Exhibit 1.3 contains an edited version of Schedule FR D-1 omitting lines below line 21 that ComEd used to improperly factor-up the WACC for assumed income tax effects.

III. RECONCILIATION DEFERRED TAXES

Q. Aside from the interest rate issue you just described, is there another substantive issue that the Commission should consider regarding the Company's calculations of the reconciliation amounts in Docket Nos. 13-0386 and 13-0318?

A. Yes. The Commission should also consider whether the reconciliation balance, to which the interest rate is applied, must be adjusted to recognize the Company's actual incremental investment in such balances. The incremental actual invested capital associated with reconciliation over- or under-recoveries is impacted by income tax that is applicable to cash revenues whenever they are collected by the utility without any offsetting deductible expense amounts. If the recovery of reconciliation surcharge revenue is delayed, the payment of related income taxes is also delayed. The Company is required to record deferred income tax expense

⁵ 7.54% was set forth as the "Pre-Tax Wtd Avg Cost of Capital" in ComEd Ex. 13.01 in Docket No. 12-0321 at Schedule FR D-1, line 21.

because it is able to defer the payment of income taxes while it is awaiting recovery of reconciliation balances.

Q. Does the deferral of income tax expense have the effect of reducing the amount of capital investment ComEd must make in support of the reconciliation revenue requirement that has not yet been recovered?

A. Yes. In ComEd's case, when revenues are under-recovered and reconciliation balances are to be collected from ratepayers, the Company records the incremental deferred income tax liability associated with the regulatory asset that reflects amounts owed by and recoverable from ratepayers. These deferred income tax liabilities reduce the incremental capital ComEd actually has invested in the reconciliation balance, because the reconciliation revenues recorded but not recovered in providing service are not currently recognized for income tax purposes. Given the lower after-tax investment required from investors because of these income deferral benefits, the amount of interest properly applied to the reconciliation balance should be reduced accordingly. Whether the reconciliation balance is positive or negative, the Commission should reduce the reconciliation balance that earns interest so that interest applies only to the net-of-tax incremental capital investment driven by such over or under-recovery of revenues.

Q. Was this concern regarding the reconciliation balance that is allowed to earn interest previously presented and considered by the Commission?

A. Yes. However, the Commission responded with concerns about the completeness of the record, and did not make a definitive ruling. In ICC Docket No. 11-0721, the need for this further adjustment to the reconciliation balance for deferred income tax effects was presented, but the Commission found that, "ComEd contends that this

recommendation does not provide ComEd with cash. AG/AARP provide little information establishing this procedure is within generally accepted accounting procedures, or that it would be of benefit to ComEd or to ratepayers.”⁶ With respect to AIC Docket Nos. 12-0001 and 12-0293, while the issue was again presented in my testimonies, there was no discussion of the net-of-tax concern within the Commission’s Final Orders.

Q. Are there deferred income tax effects directly attributable to the reconciliation balance?

A. Yes. The reconciliation balance is a regulatory asset (or liability) representing the utility’s right to receive (or obligation to return) revenues in the future. Changes in the regulatory asset/liability balance are not subject to current income taxes, but the utility must recognize deferred income tax balances associated with such changes because of the known impact upon future taxable income when reconciliation balances are realized in cash utility rate levels. Application of interest to only the net of income tax balance associated with such deferrals would be consistent with the economic reality that income tax deferrals are realized whenever a utility experiences a delay in the recovery of taxable revenues that would serve to reduce the overall interest burden upon ratepayers by about 40 percent.

Q. Can the deferred income tax liabilities associated with ComEd’s reconciliation balance be observed on the Company’s books in 2012?

A. Yes. In Docket No. 13-0318, ComEd Ex. 3.02, page 26 is part of the Company’s WP 4, a copy of which is attached as AG Ex. 1.9, which provides a detailed breakdown of 2012 year-end Accumulated Deferred Income Taxes (“ADIT”) for

⁶ Docket No. 11-0721 Final Order, page 167.

each book/tax timing difference. At line 95 of WP 4, ComEd has recorded an ADIT liability captioned “Regulatory (Asset)/Liab: Distribution Formula Rate” in the amount of \$34.077 million for federal income taxes and \$10.22 million for state income taxes. This combined \$44.297 million liability for the expected delayed payment of income taxes on the Company’s books is associated with the reconciliation balance that was recorded by ComEd at year-end 2012 as a regulatory asset, representing the corresponding delayed recoverability of reconciliation revenues from customers.

Q. Are the reconciliation-related ADIT balances on ComEd’s books recorded in compliance with Generally Accepted Accounting Principles (“GAAP”)?

A. Yes. Full and complete accounting for income tax expenses must recognize that filing tax returns and paying income taxes will impact expenses payable in more than one accounting period. The relevant GAAP requirements are stated within Accounting Standards Codification 740 (“ASC 740”). Under ASC 740, there are two primary objectives related to accounting for income taxes:

- a. To recognize the amount of taxes payable or refundable for the current year, and
- b. To recognize deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns.

Recorded ADIT amounts arise from part (b) of this standard, where recognition is given on the books to the future tax consequences of transactions that are treated differently in financial statements than on tax returns. Deferred tax expense (or benefit) is the change during the year in an entity’s deferred tax liabilities and

assets.⁷ GAAP requires that deferred taxes be determined using the following procedures:

- a. Identify the types and amounts of existing temporary differences and the nature and amount of each type of operating loss and tax credit carryforward period.
- b. Measure the total deferred tax liability for taxable temporary differences using the applicable tax rate.
- c. Measure the total deferred tax asset for deductible temporary differences and operating loss carryforwards using the applicable tax rates.
- d. Measure deferred tax assets for each type of tax credit carryforward.
- e. Reduce deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50 percent) that some portion or all of the deferred tax assets will not be realized.⁸

The delayed collection of reconciliation revenues under formula ratemaking creates a “taxable temporary difference” under step (b) in this listing. This occurs because reconciliation revenues are recorded as per book revenues in the year earned (either as excess or deficiency revenues) while such revenues will not become income taxable until the year they are approved by the Commission and charged or credited to ratepayers.

Q. Does ComEd agree that deferred income taxes must be recorded on its books in accordance with GAAP Accounting Standards Codification 740?

⁷ ASC 740-10-30-4.

⁸ ASC 740-10-30-5

300 A. Yes. I have included a copy of ComEd's response to AG 4.03 in Docket No. 13-
301 0318 as AG Exhibit 1.10, where such agreement is indicated by the Company.

302 **Q. Has ComEd proposed to include in rate base the ADIT credit balances**
303 **reflected on its books at December 31, 2012 that are associated with the**
304 **Distribution Formula Rate reconciliation regulatory asset at that date?**

305 A. No. Even though these ADIT tax deferrals arise entirely from the delivery service
306 formula ratemaking process, ComEd's WP 4 in Docket No. 13-0318 (see AG
307 Exhibit 1.9) treats them as "Non DST" and includes zero percent of this \$44.3
308 million ADIT balance in rate base. Apparently, the Company seeks to retain all of
309 the income tax deferral benefit arising from formula ratemaking for the sole benefit
310 of shareholders.

311 **Q. Why do we care about ADIT balances in determining utility rates?**

312 A Utilities are capital intensive businesses that invest continuously in newly
313 constructed or acquired assets. These large annual capital investments generate
314 persistently large income tax deductions for bonus/accelerated depreciation and
315 other tax deductions and credits that must be normalized by recording ADIT under
316 the aforementioned GAAP rules. The requirement for normalization accounting
317 denies ratepayers any immediate flow-through benefit from such tax deductions
318 because deferred income tax expense accruals are included as part of total income
319 tax expense in the revenue requirement. From a ratemaking perspective, a utility's
320 persistently large credit ADIT balance caused by the deferred payment of recorded
321 tax expenses represents a significant source of capital to the utility. ADIT balances
322 represent a form of zero-cost capital to the utility created by the income tax savings
323 permitted under tax laws and regulations that are not immediately "flowed through"

to ratepayers. Regulators typically reduce rate base by the ADIT balances, so as to properly quantify the net amount of investor-supplied capital to support rate base assets. The ICC routinely recognizes ADIT balances as rate base reductions in electric delivery service and other rate proceedings.

Q. Should ComEd's recorded ADIT balance for the formula ratemaking reconciliation regulatory asset in Docket No. 13-0318 be included in rate base?

A. Yes, this amount is clearly 100 percent associated with delivery service ratemaking at a single point in time, December 31, 2012. However, because the deferred taxes associated with formula rate reconciliation balances are more dynamic and the template used to calculate reconciliation balances is formulaistic, a much more precise accounting for reconciliation interest can be achieved by simply restating the monthly reconciliation balances on Schedule FR A-4 to which the interest rate is applied to a net-of-tax equivalent. This more precise accounting assures that interest on the reconciliation balance is only applied to the monthly amount of net investor supplied capital arising from the delayed recovery or return of reconciliation revenues.

Q. Is there a valid concern that deferred income taxes associated with the reconciliation balance do not provide any incremental cash for the utility?

A. No. Changes in ADIT provide incremental cash flows to utilities through the change in timing of the payment of cash income taxes associated with such tax deferrals. Even when utilities are in a Net Operating Loss ("NOL") carryforward position, which is currently true for ComEd, the size of the NOL in each tax year is directly impacted by changes in the reconciliation balance regulatory asset, and the

resulting NOL deferred tax asset is included in rate base to directly impact utility rates.⁹

Q. What changes have been incorporated into your AG Exhibit 1.4 to revise ComEd’s Schedule FR A-4, the formula rate spreadsheet template “Reconciliation Computation,” in order to apply your recommendations?

A. First, the “Variance With Collar” appearing at line 1e should be reduced, on new line 1f, by the related incremental deferred income taxes applying the Company’s 41.175% composite effective “Income Tax Rate”, which is derived on Sch. FR C-4, at line 4, as noted in the “Source” column. The resulting “Net of Income Tax Variance With Collar” appears on new line 1g of revised Schedule FR A-4. Then, I would change the caption to “Pre-Tax Weighted Average Cost of Capital” on line 2, in place of ComEd’s proposed “Total Revenue Effect of Return.” This is the proper percentage interest rate to be applied to the “Net of Income Tax Variance” on line 1g. Lines 3 through 16 of Schedule FR A-4 are then modified to show 1/12 of the Net Variance in each month, so as to allow the calculation of Interest in column (F) to be driven by the Net Variance amounts. The remaining lines 17 through 28 are unchanged, so as to permit the accrual of additional interest to the declining Net Variance balance from line 16 during the subsequent 12-month recovery period.¹⁰ A new line 30 is then inserted to remove the Deferred Income Taxes, so as to provide for full recovery of the reconciliation balance with pretax revenues.

⁹ The Company’s NOL deferred tax asset is included in Docket No. 13-0318 asserted rate base at ComEd Ex. 3.02, page 23, WP 4, line 20 captioned “Federal NOL DTA” where it is allocated 78.24% to DST and increases rate base by approximately \$25 million. ComEd agrees (after objection) that the size of its recorded NOL deferred tax asset is directly related to the size of the reconciliation regulatory asset in its response to AG 4.03, part (e). See AG Exhibit 1.10.

¹⁰ A more complex calculation could be adopted for the recovery year X+2 to recognize the declining balance of ADIT as regulatory asset balances are being amortized and recovered. In the interest of conservatism and administrative simplicity, this portion of the template was not revised.

367 **Q. Will the computation of interest on the reconciliation balance net of the related**
368 **deferred income taxes benefit ComEd's ratepayers?**

369 A. Yes. ComEd Exhibit 3.18 in Docket No. 13-0318, at Schedule FR A-4 (see AG Ex.
370 1.7) shows that the Company has calculated a \$144.9 million positive "Variance
371 With Collar" amount to be collected from ratepayers, before any interest is added.
372 The net of tax adjustment to this variance that I propose would appropriately reduce
373 the amounts to be surcharged to customers in this proceeding. The combined effect
374 of applying interest to the net of tax investment in under-recovered revenues and
375 using the required WACC interest rate would reduce ComEd's proposed charge of
376 \$181.1 million at line 31 of Schedule FR A-4 to approximately \$163.9 million.

377 **Q. If the Commission declines to adopt your proposed modifications of Schedule**
378 **FR A-4 to apply interest to ComEd's net of tax reconciliation balance, as an**
379 **alternative, should the recorded ADIT balances associated with the**
380 **reconciliation regulatory asset be treated as 100 percent DS jurisdictional and**
381 **added to the ADIT balance that is used to reduce ComEd rate base?**

382 A. Yes. This alternative treatment would at least acknowledge the existence of these
383 ADIT balances which clearly relate only to the delivery service business. However,
384 the modification to interest calculations is the more appropriate adjustment for such
385 amounts.

386 **IV. CONCLUSION AND RECOMMENDATION.**
387

388 **Q. What is your recommendation regarding the formula rate tariff changes that**
389 **are necessary to ensure that ratepayers are not paying excessive rates under**
390 **formula rate regulation??**

391 A. I recommend that ComEd's formula rate tariff be modified to reflect the
392 recommended changes described in my testimony.

393 **Q. Does this conclude your testimony at this time?**

394 A. Yes.